

A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

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Procedural Review

# **McNeal Elementary School District No. 55**

As of April 18, 2007

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**Debra K. Davenport**  
Auditor General

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DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

**STATE OF ARIZONA**  
**OFFICE OF THE**  
**AUDITOR GENERAL**

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

July 20, 2007

Governing Board  
McNeal Elementary School District No. 55  
P.O. Box 8  
McNeal, AZ 85617-0008

Members of the Board:

We performed a procedural review of the internal controls of McNeal Elementary School District No. 55 as of April 18, 2007. The purpose of a procedural review is to determine whether a district is in substantial compliance with the *Uniform System of Financial Records for Arizona School Districts* (USFR). Our review consisted primarily of inquiries, observations, and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District has not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Michael Stelpstra, Accounting Services Manager.

A member of my staff will call the District's Bookkeeper in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Thank you for the assistance and cooperation that your administrators and staff provided during our procedural review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport  
Auditor General

# TABLE OF CONTENTS



Introduction	1
Recommendation 1: The District should maintain accurate and complete capital assets and stewardship lists	2
Recommendation 2: The District should improve controls over cash receipts	3
Recommendation 3: The District's controls over competitive purchasing and expenditures should be improved	4
Recommendation 4: The District should ensure the accuracy of its accounting records and supporting documents	5

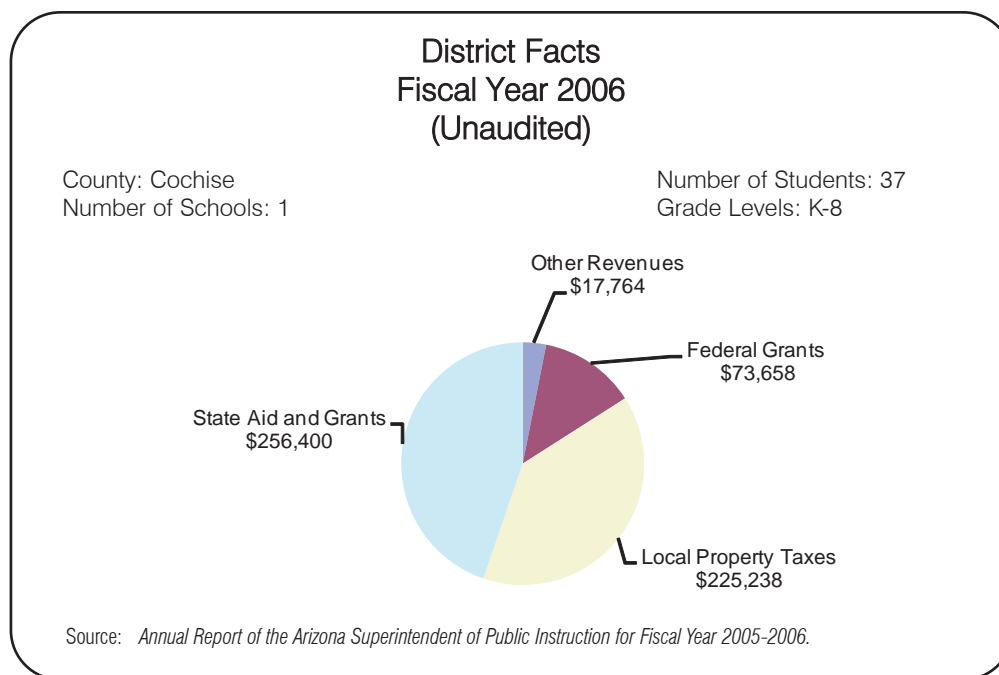


# INTRODUCTION

McNeal Elementary School District No. 55 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$570,000 it received in fiscal year 2006 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our procedural review, we determined that the District had not complied with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



## The District should maintain accurate and complete capital assets and stewardship lists

The District did not effectively account for or control its capital assets.

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment, effective stewardship requires the District to have accurate lists of these assets to ensure they are properly identified and accounted for. However, the District did not accomplish this objective. Specifically, the District's capital assets list did not include land or land and building improvements, and some items recorded on the District's stewardship list could not be located on the District's premises. Also, the capital assets and stewardship lists did not include all required information, and the District did not always retain documentation to support the cost recorded for items on the capital assets list. In addition, equipment items on the stewardship list were not always marked as district property using a tag or other identifying number, and obsolete items were not disposed of and removed from the stewardship list. Further, the District did not reconcile capital asset additions to capital expenditures, retain documentation to support the physical inventory, or maintain written procedures for safeguarding its equipment.

## Recommendations

The following procedures can help the District ensure its assets are adequately accounted for and controlled:

- Maintain a current and complete capital assets list that includes all equipment, land, buildings, and related improvements costing \$5,000 or more with useful lives of 1 year or more.
- Maintain a current and complete stewardship list of all equipment items costing between \$1,000 and \$5,000.
- Include all required information for each item on the capital assets and stewardship lists.
- Retain cost documentation such as purchase orders, receiving reports, and vendor invoices to support information recorded on the capital assets list.
- Attach a permanent tag with an identifying number to each equipment item costing \$1,000 or more, or specifically identify the asset by some other means, such as serial number.

The capital assets and stewardship lists should include the information described on USFR pages VI-E-2 and 3 and in USFR Memorandum No. 196.

- Dispose of obsolete equipment items in accordance with the School District Procurement Rules and remove those items from the capital assets or stewardship lists.
- Reconcile capital asset additions to capital expenditures.
- Take a physical inventory of all equipment at least every 3 years and retain all documentation to support the inventory.
- Establish a policy that addresses the safeguarding of equipment against improper or unauthorized use and from theft or misplacement.

The form on USFR page VI-E-13 may be used to document the reconciliation of capital asset additions to capital expenditures.

## The District should improve controls over cash receipts

The District receives cash from various sources, including food service sales and miscellaneous cash receipts. Because of the relatively high risk associated with cash transactions, the District should establish and maintain effective internal controls to safeguard cash. However, the District did not adequately separate cash-handling and recordkeeping responsibilities. Specifically, the same employee was responsible for receiving monies, recording transactions, and preparing and making deposits. Further, the District did not always deposit cash receipts intact and in a timely manner.

Poor cash controls left district monies susceptible to loss, theft, or misuse.

## Recommendations

To properly control and safeguard cash, the District should ensure that the same employee does not handle cash and record cash transactions. If one employee must perform multiple functions, district management should implement additional supervisory review at appropriate points in the process to help ensure that adequate internal control is maintained. In addition, monies received should be deposited intact daily when significant, or at least weekly.



# The District's controls over competitive purchasing and expenditures should be improved

The District may not have received the best value for the public monies it spent.

The District spends public monies to purchase goods and services, so it is essential that the District follow procedures designed to help ensure that it receives the best possible value for the public monies it spends and that its expenditures are properly authorized. USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors to help ensure that districts receive the best possible value. However, the District did not always follow the USFR guidelines. Specifically, the District did not obtain written price quotations for all purchases requiring them. In addition, the District did not have adequate controls over expenditure processing as purchase orders were not always prepared before ordering goods and services.

Further, a conflict of interest statement was not maintained for a Governing Board member who had a potential conflict of interest, and the District's Governing Board did not specifically approve making purchases, and the amount of the purchases, from this board member's business as required by statute. Finally, credit card payments were not made in a timely manner or for the full amount due; as a result, the District incurred late fees and finance charges.

## Recommendations

To comply with the USFR guidelines and to strengthen controls over expenditures, the District should:

- Obtain written price quotations from three or more vendors for purchases estimated to cost between \$15,000 and \$33,689. If three quotations cannot be obtained, the District should document the vendors contacted who did not offer price quotations and the reasons they would not do so.
- Prepare and approve purchase orders before ordering goods and services, including verifying that sufficient cash or budget capacity exists in the applicable funds.
- Disclose and document potential conflicts of interest and ensure that the Governing Board approves all purchases made from a board member or a board member's business.

USFR pages VI-G-2 through 5 describe expenditure processing procedures.

Arizona Revised Statutes §15-323 includes the requirements for making purchases from Governing Board members.

- Make credit card payments in a timely manner and in full to avoid late fees and finance charges.

## The District should ensure the accuracy of its accounting records and supporting documents

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records and annual financial report (AFR) are accurate and complete, and documents supporting such records are retained. However, the District did not fully accomplish this objective. Specifically, the District did not ensure that it received monthly revenue and expense reports from the County School Superintendent (CSS) and, therefore, did not reconcile its records of revenues, expenditures, and cash balances to the CSS' records. Also, the District did not always classify expenditures in accordance with the USFR Chart of Accounts, and amounts reported in the AFR did not always agree to the District's accounting records. In addition, the District did not properly carry forward its Classroom Site Fund budget balances and did not retain documentation to support the amounts reported to ADE on the Transportation Route Report (TRAN 55-1).

The District did not verify the accuracy of its accounting records since its records were not reconciled to the County School Superintendent's records.

## Recommendations

The following procedures can help ensure the District's accounting records are accurate:

- Work with the CSS to obtain revenue, expenditure, and cash balance reports in a timely manner.
- Reconcile the District's records of cash balances by fund monthly, and its records of revenues, expenditures, and cash balances by fund, program, function, and object code at fiscal year-end to the CSS' records. Prepare written reconciliations and make all necessary corrections.
- Classify all financial transactions in accordance with the USFR Chart of Accounts.

USFR §III provides guidance for classifying financial transactions.

- Require a second employee to verify that amounts reported on the AFR agree to the District's revised expenditure budget and accounting records before submitting it to ADE.
- Carry forward the unexpended budget balances for each of the three Classroom Site Funds to the following year in accordance with Arizona Revised Statutes §15-978.
- Prepare and retain adequate documentation to support the number of eligible students reported on ADE's TRAN 55-1 Report.